

This record is a partial extract of the original cable. The full text of the original cable is not available.

231247Z Jan 06

UNCLAS YEREVAN 000095

SIPDIS

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [AM](#)

SUBJECT: KOCHARIAN ON TAX AND CUSTOMS: "A CASTE OF PARASITES..."

REF: 05 YEREVAN 52

Sensitive but unclassified. Please protect accordingly. Not for Internet distribution.

-----  
SUMMARY  
-----

11. (U) Despite acknowledging limited improvements, President Kocharian strongly criticized the State Customs Committee and State Tax Service for failing to coordinate and for reported cases of corruption and smuggling which continued to undermine revenue collection during a working meeting with Heads of the agencies. The January 11 meeting, widely covered by local media, occurred on the one-year anniversary of Kocharian's pledge that 2005 would be the year of tax and customs reform (reftel). The President noted that the transportation and mining sectors were the most problematic in the economy and were marked by extensive illegal activity. End Summary.

-----  
LIMITED PROGRESS FAILS TO MEET EXPECTATIONS  
-----

12. (U) During a working meeting with Heads of the State Customs Committee and State Tax Service on January 11, the President acknowledged that improved administration in both tax and customs collection had led to increased revenues in 2005. Despite the progress, however, Kocharian strongly criticized the two agencies. "I had higher expectations of proper reforms which have not happened to date," the President noted. He emphasized the need for tougher controls and reforms aimed at expanding the grounds for punishment and increasing enforcement of existing laws. Kocharian noted that the Presidential oversight service would begin to implement stricter control in 2006 with "all due consequences." He encouraged the tax and customs services to work closely with small and medium-sized enterprises (SMEs) saying, "you should make efforts to ensure favorable conditions for SMEs, because the large lucrative businesses can take care of themselves, while SMEs remain very vulnerable."

-----  
TRANSPORTATION AND MINING SECTORS TOP THE LIST  
-----

13. (U) The President said that illegal activity was particularly evident in the transportation and mining sectors. He accused commuter and interstate bus companies of consistently underreporting enormous incomes. He also said that some mines producing 80 truck loads of ore a day report only two, "which sparks the creation of a whole caste of parasites feeding from the underreported income while the state budget sustains losses."

-----  
A SUCCESS STORY AT MEGHRI  
-----

14. (U) Kocharian expressed satisfaction, however, with the administrative changes instituted at the Meghri customs check point. "It only took you two months to bring everything back in order (in Meghri), so why did you wait for the President to interfere before addressing the problem?" In October 2005, after receiving multiple complaints from Iran concerning the Meghri border crossing which is located on the Armenian-Iranian border, the Armenian President ordered the Chairman of the State Customs Committee to reorganize the customs checkpoint, restore order and improve services. The Chairman dismissed the head of the Meghri customs unit and instituted a series of administrative and procedural changes at the checkpoint. (Note: Prior to the reorganization, the GOAM, with support from the USG, upgraded the equipment at the Meghri checkpoint to bring it in line with European standards. End Note.)

-----  
COMMENT: A REAL COMMITMENT TO CLEANING HOUSE?  
-----

15. (SBU) The very public nature of Kocharian's comments coupled with the lack of significant concrete action to back them up could lead the cynical to question the sincerity of the GOAM's efforts to clean house. Nonetheless, we have identified tax and customs collection as key areas for reform and USAID recently launched a five-year tax reform project in Armenia. The International Monetary Fund has also emphasized the need for reform in these areas, particularly customs.

Although it is likely that his comments were at least in part directed at the international donor community, we plan to take the GOAM at its word as we help them to move forward on reform.

EVANS